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Financial Credit for SMEs and Export in Jordan

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This study aims to determine the impact of small and medium-sized finance on Jordan's export. For this purpose, time series analysis (Autoregressive Distributed Lag model) is used. Due to the limited data available, quarterly data from small and medium-sized finance was used during this period (2016-2020). Results are shown that some variables are stationary at the level and some stationary at the first difference. The results also show that there is a long-term relationship between export and explanatory variables. The estimate showed that there is a significant positive effect of small and medium finance, on export, and the impact of financing given to medium-sized companies on exports is greater than financing given to small companies. The study finished with several recommendations, including the need to provide support to small projects to help them overcome the challenges they face, as well as removing obstacles to small and medium finance. Facilitating their access to sufficient and sustainable sources of funding, On the other hand, it is necessary for the companies to interact with each other, SMEs will make changes to improve their income has become larger and more stable, making it possible for these companies to add new export.

Key words: *small finance, medium finance, export, international trade, Jordan*

1. Introduction

In order to produce, manufacturers need working capital to cover the upfront costs that are due before production and sales are realized. The current cost is paid by the manufacturer's internal resources, but when the available working capital is limited, the manufacturer has two options: 1) reduce the scale of production until the internal resources are used to fully cover the initial cost, or 2) use external financing sources to meet its capital needs. In the latter case, obtaining external sources of financing not only allows manufacturers to avoid underinvestment in lower-scale production but also even if the upfront costs are higher than available internal resources.

Because export manufacturers need to provide services to foreign market destinations and incur additional upfront costs, access to external sources of financing plays a key role in determining the manufacturer's export success.

Entering foreign markets is an important mechanism for corporate growth. In recent years, when the domestic economy has stagnated, dynamic companies have sought compensation through sales internationalization. However, the literature emphasizes that internationalization requires non-trivial investment, which means a lot of sunk costs. To become an exporter, a company must devote resources to determine its specific export market and make necessary adjustments to make its products suitable for that market, make them compatible with local tastes and comply with the regulations of the target country. For example, these sunk costs include obtaining foreign market information, establishing distribution networks, and customizing products according to local tastes (Baldwin and Krugman, 1989). In addition, since most entry costs must be paid in advance, potential exporters must have sufficient liquidity on hand.

There are many obstacles to the layout of these companies' products in the global market. Many countries have been trying to adopt a series of measures to promote the distribution of local companies' products in foreign markets. These measures include state support for financing tools. SME financing is the main issue that determines the current and future performance of these companies, bringing about the company's potential growth, stability, and future (Doležal, 2015).

Greenway et al. (2005) shows that an important determinant of corporate investment and participation in the export market is financing. Therefore, we assume that companies with better access to financial resources can pay for the expenses and costs associated with the export business, so they are more likely to increase their participation in the export market.
It is well known that many companies, especially small companies, have huge export potential, however, relatively few companies actually export (Yeohand Jeong, 1995). This phenomenon may be due to the company's difficulty in obtaining the funds needed for export. Financial constraints are considered an important obstacle to corporate investment, especially their desire to get involved in export business. The company's ability to export a portion of its sales is increasingly regarded as an important indicator of competitive performance (Buckley et al., 1990). However, export decisions may be affected by obtaining the necessary financing.

Therefore, compared with small businesses (SB), the internationalization of medium and large enterprises is more common. For these reasons, the theoretical and empirical literature has increasingly recognized the role of financial markets in the internationalization of firms and emphasized that exports are particularly vulnerable to credit imperfections (Manova, 2012). Although this restriction applies to every country, it imposes constraints on an economy whose the industrial structure is mainly composed of SB. In other words, supporting the internationalization of SBs will greatly contribute to the development of these countries

This research contributes to the literature by investigating how SMEs' access to bank financing affects their participation in export markets. We pay special attention to SMEs in Jordan.

For these reasons, the issue of SMEs is very important for economic decision-makers in both developed and developing countries, including Jordan, but many problems hinder their development. The most obvious problem is financing channels because financing plays an important role in meeting the needs of SMEs.

All of this may help decision-makers in Jordan to design a policy to enhance SME's role, or it may provide them with better and more realistic clarity on the current status of these finance. Therefore, this study seeks to answer the following important question: Do SMEs finance enhance international trade in Jordan in addition to the answer to which sources of these financing are the most effective in promoting international trade in addition to trying to reach What is obstructing the role of SMEs in international trade? In the second topic, the theoretical and applied dimensions of SMEs finance will be addressed, in the third topic, the situation of SMEs finance in Jordan will be discussed. As for the study model, methodology, and Econometrics analysis, it is covered by the fourth topic. Finally, the findings and recommendations will be addressed in the fifth topic. Due to limited data, previous studies did not study the relationship between SME financing and international trade from a statistical perspective. This problem was solved by taking quarterly data (2016-2020).

2. Literature Review

Production is a capital-intensive activity that requires the use of the manufacturer's internal and external resources to pay upfront costs. When internal resources are limited, external resources become an additional source of financing for manufacturers to accumulate the entire pre-production cost. In this case, obtaining external financing becomes an important tool that enables manufacturers to overcome cash flow requirements without affecting their production scale decisions. In this sense, there is not much difference between domestic companies and export companies. Both require working capital to cover up-front costs. Since export manufacturers need to bear additional up-front costs to serve destinations in foreign markets, access to external sources of financing plays a key role in determining the manufacturer's export success.

In addition to paying additional upfront costs, exporters also face additional financing needs The time of cost accrual does not match the time of foreign market revenue . Due to production, transportation, customs processing and local Distribution in the final market requires additional time and exporters need to fund operating costs At least two months longer than the time required for the manufacturer to only produce locally (Djankov et al,2010), Therefore, exporters rely more on external sources of financing than domestic producers

Due to the importance of SMEs in international business activities and their contribution to the country's economic growth, access to financing and the export propensity of SMEs are the most recent research areas. However, due to the risk perception of high default probability of SMEs, the growth rate and export activities of SMEs are restricted by the financial support of banks and other financial institutions (Belás & Sopkova, 2016).

Banks provide various loans to various customers for various purposes. However, small businesses often encounter difficulties when applying for credit from financing providers to support fixed capital investment and provide working capital for their operations (Tucker and Lean, 2003). Whether SMEs can obtain bank loans is mainly restricted by the relationship between supply and demand. Demand constraints refer to the factors that make it difficult for SMEs to seek external financing from financial institutions, such as the poor quality of potential projects that meet the financing conditions, and the inability of SMEs to draft convincing business plans and pro forma financial statements.

Supply constraints refer to the factors that make it difficult for banks and other financial institutions to lend (provide loans) to SMEs, including the high degree of information asymmetry related to SME loans, high transaction costs, the inherent risks of SMEs, and the impact of financial institutions. It is more difficult for developing countries to provide loans to SMEs. Small and medium-sized enterprises are considered risky because many of them cannot survive for various reasons. The failure rate of SMEs exceeds 20% per year (Liedholm, 2001), and most of them fail in the first year (Biekpe, 2004). The level of risk is inversely proportional to the size of the company. In terms of transaction costs, the transaction costs between banks and SMEs are relatively high. In some cases, the cost of the loan may be considered a fixed cost. These costs include administrative, legal, and information obtained from professional agencies. Regardless of the size of the loan, the cost structure of the two loans may be very similar. For example, the cost of processing a $10,000 SME loan request by a bank may be similar to the cost of processing a $100,000 loan from a large company. Therefore, due to economies of scale, the cost of lending to large companies may be lower. In addition, the transaction costs of post-payment loan monitoring for SMEs are disproportionately high.

Bilkey (1978) pointed out that in empirical research, the most common serious export obstacles reported by US companies are: insufficient funds, foreign government restrictions, insufficient understanding of foreign sales opportunities, and insufficient products. Previous research also pointed out that although banks are the main source of external capital for small businesses, they are more difficult to obtain bank loans than large businesses (Schiffer and Weder, 2001). Small companies only obtain 30% of financing from external sources, while large companies use external financing to meet up to 48% of their financing needs (World Bank, 2004).

Binks et al. (1992) warned that restricting small businesses' access to bank debt may not be directly attributable to their size, but rather to problems related to the availability of information for evaluation projects (information asymmetry). They argued that such information problems

are not limited to the small business sector, but dominate there because the information collection costs associated with this sector are expected to be (proportionally) high. The financing provided by the bank to the company can be regarded as a simple contract between two parties, where the bank is the principal and the small company is the agent. This relationship may lead to information asymmetry (Binks et al., 1992). Due to limited information on the credit quality of borrowers, the problem of information asymmetry is even more serious in developing countries. Credit rating agencies hardly exist, and credit advisory agencies are still largely undeveloped.

The literature shows that legal variables such as the rights of creditors have a positive impact on the development of financial markets. If the state where small companies are located offers less protection to creditors in the event of a borrower's bankruptcy, they are 25% more likely to be denied credit (World Bank, 2004). Beck et al . (2005) suggested that financial constraints have the most adverse effects on the smallest companies, and that incremental improvements in the financial system that help relax these constraints will be most beneficial to small and medium-sized enterprises. Fund providers generally prefer borrowers with good profit records, a certain degree of longevity, and assets that can be used as collateral (Cole and Wolken, 1995). In order to minimize the risk of dealing with potential loan borrowers, banks have adopted certain strategies. They may increase the interest rate on loans to risky borrowers (such as small businesses) to reflect greater repayment uncertainty (Berger and Udell, 1995).

Constraints faced by SMEs:

There is no doubt that SMEs play an important role in economic growth. However, on the other hand, the failure rate of SMEs is troubling both developing and developed countries. Several studies have shown that approximately 80-90% of SMEs will go bankrupt within 5-10 years (Ahmad, Abdul Rani, and Mohd Kassim, 2010; Kuratko and Hodgetts, 2004). Small and medium-sized business owners are faced with challenges related to the growing economy, various technologies, expertise, and resource shortages (Gummesson, 1994).

Small and medium-sized enterprises are important for economic growth and development and job creation. Small and medium-sized enterprises need precise management to grow in the world economy. The success of entrepreneurship will show how to minimize poverty and how to improve the lives of people in the world's immature economies.

In order to compete internationally and achieve rapid growth, small and medium-sized businesses need management talents to overcome critical situations they may face and reach a more effective level (Al-Haddad et al., 2019).

Research also shows that political uncertainty, lack of intellectual resources and infrastructure, fear of government authorities, and weak governments are another problem that small and medium-sized businesses face (Isa & Shaari, 2011)another difficulties face These companies

which is insufficient funds, Demanding guarantees in exchange for giving loan, The high interest rates on these loans are the highest (Sabha and Saymeh, 2014). Access to finance is more of a challenge for small businesses than large and medium businesses. The banking sector dominates the financial system, is less competitive and plays a limited role in financial intermediation, compared to other middle-income countries, and small businesses often turn to the informal sector or family and friends for the necessary financing (Nasser, S., El-Abed, 2013) .

3. Applied studies

The preceding discussion demonstrates, in theory, that the effect of SMEs finance on international trade may be ambiguous. What about empirical evidence? In recent years, more and more literature has studied the economic impact of SMEs. Beck (2013) shows that the credit constraints of small and medium-sized enterprises can be alleviated through financial deepening, partial credit guarantees, financial system structure, and regulatory changes. It is found that companies with a strong financial background are in a better position for exports (Wagner, 2014).

Casser (2004) shows that export companies lacking bank financing rely more on the advance payment of importers to cover production costs and other export-related costs. The study also found that because of business relationships, it is easier for importers to provide financing to exporters (Huyghebaert, 2006).

Giannetti, et al. (2008) found that importer financing is more expensive than bank financing. However, since bank loans require less administrative work, it is easier for companies to obtain financing from importers.

Bartoli et al (2014) studied the issue of bank support to SMEs and whether bank support can increase the export behavior of SMEs in the context of the Italian market. They found that long-term relationships with major banks can alleviate the financial constraints of small businesses and, because of easier access to financing, can encourage them to sell more products to the international market. They also provide evidence that bank support can help SMEs by facilitating access to lower interest rates of credit. In addition, if the bank is an international bank, the bank can provide advisory services.

Minetti and Zhu (2011) provide more evidence from the Italian market on how credit constraints on SMEs and credit rationing tend to hinder SME export profitability. The paper found that credit rationing can reduce the export probability by 39%, and it can also reduce the domestic sales of enterprises.

Sabha and Saymeh (2014) also presented evidence from Jordan to Assessment of Small Enterprise Financing, Case of Jordan The researcher analyzed 345 questionnaires, and obtained

a set of results through the analysis, which are summarized as follows: There is insufficient funding for these enterprises. The attitude of asking for a guarantee in exchange for a loan is relatively stubborn. The high interest rates on these loans are the most serious. Abor et al (2014) examines the channels through which SMEs obtain bank financing and how this affects their export activities, This study uses probabilistic models to evaluate empirical relationships ,The results of the study show that the opportunity for SMEs to obtain bank financing increases their likelihood of exporting. The research results also show that old companies, more productive companies, and larger companies are more likely to take an important step in entering the export market. Therefore, policy intervention should aim to reduce the bottleneck that hinders SMEs from obtaining funds from commercial banks. Greenaway (2005) found that companies with financial constraints are unlikely to export. In addition, balance sheet variables are an important determinant of a company's decision to enter foreign markets. This happens because a healthier balance sheet makes it easier for companies to meet sunk export market entry costs. Bernard (2010) analyzes the relationship between companies' access to financing and their decisions to enter and exit the export market in 28 countries in Eastern Europe and Central Asia, found that more efficient, foreign and older companies are more likely to start exporting, while larger and more productive firms have fewer chances of exiting the export market On the other hand, there is no relationship between firms' decision to enter or exit export markets and their access to financing, This may suggest that internal finance plays a greater role in Eastern Europe and the CIS than in developed countries

Small and Medium Enterprises in Jordan

The Jordanian economy is mainly regarded as an economy based on small and medium-sized enterprises. Small and medium-sized enterprises (SMEs) account for 98% of Jordanian enterprises, their employees account for approximately 60% of the labor force, and the total products account for approximately 50% of GDP. As Jordan develops into a highly free and open market economy, the SMEs sector is facing many challenges. The whole thing is rapidly moving and upgrading, which has caused prejudice and long-term effects on SMEs. Jordan began to implement an open market policy and deregulation in 2000. Nine years later, the SME sector was once again affected by the economic disaster. SMEs play an important role in improving employment in Jordan. In Jordan, there is no official definition that can clarify the definition of micro, small and medium enterprises for all public and private sector institutions. For the industrial sector, the Ministry of Industry and Trade (MIT)-through a cabinet decision in 2005-defines different parts of the industrial sector and enterprises, which are in line with its laws and regulations. The Central Bank of Jordan issued an official memorandum to the Banks of Jordan in 2011, in which companies are defined differently based on assets, turnover and number of employees. In addition to the formal sector, informal enterprises operate outside of the existing business registration and taxation system and the current zoning regulations, resulting in tax losses and weak supervision. In 2010, Jordan’s informal sector was estimated to employ 487,861 workers, accounting for 44% of the total employment in the Jordanian economy(Amawi, 2013). Table No. (1) shows the division of micro, small and medium

companies according to the classification of the Central Bank and the Ministry of Industry and Trade

Table No. (1): division of micro, small and medium Enterprises

	Number of Employees	
	Jordan / Central Bank of Jordan	**Jordan / Ministry of Industry and trade**
Micro		1-9
Small	5-20	10-49
Medium	21-100	50-249

Central Bank and the Ministry of Industry and Trade

From 2005 to 2012, the total number of registered companies in Jordan was 140,447. Small businesses with capital under JD 10,000 include 136,000 institutions (96.9%). The classification the sectors that make up the Jordanian economy, they are as in Table No. (2) :

Table No. (2): classification the sectors that make up the Jordanian economy

sectors	percentage
service and trade sectors	71.5%
Industrial	18%
construction	3.6%
Agriculture	6.9%

Jordan Strategic Forum, 2013

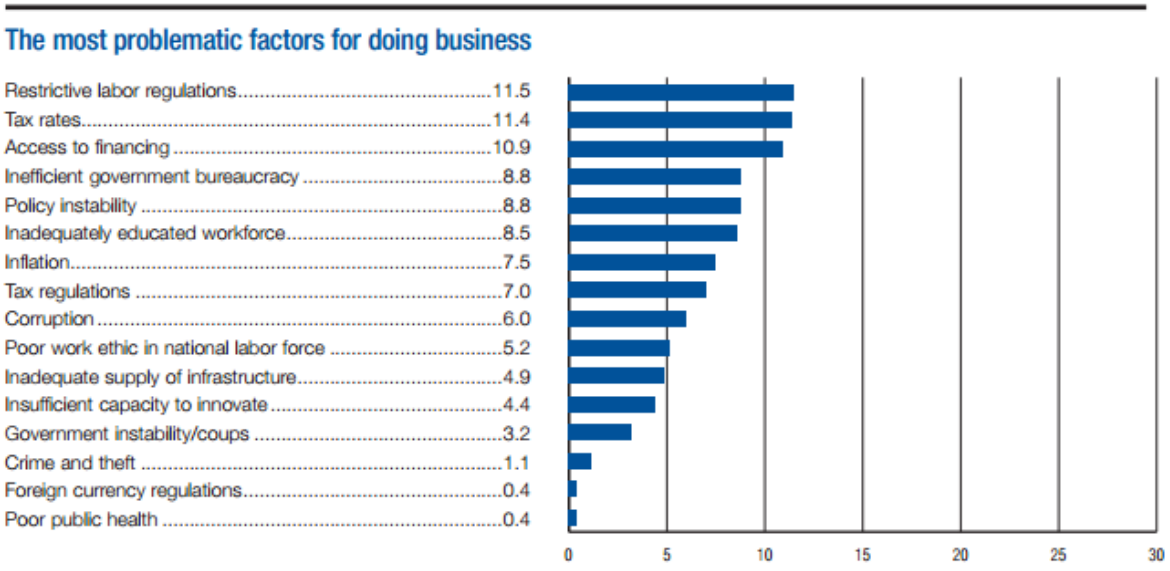
It is noticed that most of the classification went towards the service and trade sectors, while the percentage directed to the industrial sector was weak, which limits the amount of export from these companies And therefore not the optimal use of these projects..

Partnerships/Limited Partnerships are still the highest, with 38,319 companies 59.9%.

The total number of employees in the private sector in 2010 was 671,575. Micro and small enterprises accounted for 58.4% of Jordan's total employment, for a total of 392,250. if we Add medium-sized enterprises, this proportion will exceed 66%. (Jordan Strategic Forum, 2013). According to the 2014 Doing Business Report, Jordan's ranking has declined on multiple levels including entrepreneurship, operations, and existing companies. This shows

that despite the fragmented efforts to modernize the business environment, international organizations and the Jordanian business community always list the same challenges faced by companies. It is also worth mentioning that in the 2013-2014 Global Competitiveness Report, Jordan's ranking among 148 economies dropped to 68. As shown in the figure (1), the private sector has identified labor regulations, tax rates, and financing channels as challenges facing companies and many of other challenges, Figure No (1): challenges facing Small and Medium Enterprises in Jordan

Figure No (1): challenges facing Small and Medium Enterprises in Jordan



5. Methodology

The objective is to test whether bank financing to small and medium firms has a positive and significant effect on export outcomes in Jordan, in a simulation of the studies that used to determine the effect of variables believed to play a role in export. Molina, et al (2014) dealt with the impact of external financing in Colombia, and Abor et al (2014) dealt with the impact of Bank finance. The current study deals with the impact of SMEs finance in export, All data were collected from the Central Bank of Jordan Accordingly, the study form can be formulated as follows

$$exp = f(SF, \mathrm{MF}, INT, INF) \dots\dots\dots\dots\dots\dots (1)$$

Where (exp): export outcomes, (SF): $Small\ finance$, (MF): $Med\ finance$.

In addition, the control variables (INT): interest rate, (INF): inflation rate

6. Analysis Results

The economic analysis of the study subject is based on time series data, and this analysis requires the estimation of the Econometrics relationships between the study variables. Accordingly, preliminary statistical tests must first be conducted to determine the appropriate method for estimating these relationships, and this includes testing the unit root for data for each time series included in the estimation of the Econometrics relationship. **Table** No. (3) refers to the results of the unit root test, as the results showed that (EXPO, SF) stationary on level I(0), (MF,INT,INF) not stationary in levels but stationary at the first degree (I (1)).

Table No. 3: Phillip-Perron Test Results

Variables	Level		1st differ.		Integrated
	Intercept	intercept and trend	Intercept	intercept and trend	
expo	-3.61 (0.015*)	-7.82 (0.0000*)	-12.44 (0.0000)	-13.54 (0.0000)	I(0)
MF	-1.14 (0.68)	-2.57 (0.23)	-7.77 (0.0000*)	-7.27 (0.0001*)	I(1)
SF	-0..62 (0.84)	-3.67 (0.0498*)	-10.07 (0.0000)	-8.87 (0.0000)	I(0)
INT	-1.51 (0.50)	-0.98 (0.92)	-3.59 (0.016*)	-5.45 (0.0019*)	I(1)
INF	-2.01 (0.27)	-0.79 (0.95)	-3.45 (0.0222*)	-4.24 (0.018*)	I(1)

Results of a Autoregressive Distributed Lag (ARDL) estimation:

Since we have some variables Stationary on the level and some variables in the first difference are Stationary, we used the ARDL model. For the co-integration test, we use the Bounds test. The results of the co-integration test are summarized in Table 4 below. From Table 4, use the ARDL bound test co-integration program, and the co-integration relationship between them. This can be seen from the value of the F statistic, which is greater than all critical value Bounds. Based on this result, we cannot accept the null hypothesis that there is no cointegration between variables. Therefore, there is a long-term relationship between the specific dependent variable and the selected independent variable. Therefore, the ARDL model can be estimated for the relationship.

One of the advantages of the ARDL test is that it can be applied to small samples and give valid results. We can determine the short-term and long-term relationship between the independent variables and the dependent variable It is also possible to specify different time lags for the variables, which is not possible in the cointegration test (Pardhan,2013).

Table No. 4: ARDL Bounds Test Results

k	Value	Test Statistic
4	16.84	F-statistic
Critical Value Bounds		
I1 Bound	I0 Bound	Significance
3.01	1.9	10%
3.48	2.26	5%
3.9	2.62	2.5%
4.44	3.07	1%

Analysis of Regression Results

Table No. (5) show the effect of the explanatory variables on export in short term. The results showed that the error correction coefficient (speed of adjustment) is negative and statistically significant, which indicates that export in Jordan is affected by the explanatory variables used in the models in the long run.

Table No (5) : ARDL Cointegrating And short Run Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXP01(-1))	0.868799	0.278214	3.122776	0.0205
D(EXP01(-2))	0.761153	0.214485	3.548745	0.0121
D(SMALL)	-0.268601	0.315818	-0.850492	0.4277
D(SMALL(-1))	-1.260778	0.318910	-3.953393	0.0075
D(MED)	0.391265	0.270982	1.443876	0.1989
D(MED(-1))	-0.245133	0.176900	-1.385718	0.2151
D(INTREST_RATE)	16205.264653	9646.000264	1.679998	0.1440
D(CONSUMER_PRICE_INDEX)	-9.311570	16.344595	-0.569703	0.5896
CointEq(-1)	-2.479973	0.429075	-5.779807	0.0012

The Long Run Analysis:

Table No. (6) show The results of the long run model. It is noted that small finance have a positive impact and significance at the 5 percent level. medium finance have positive impact and significance at the 5 percent level. We have noticed that the impact of financing given to

medium-sized companies on exports is greater than that of financing given to small companies. This may be because small companies cannot afford to bear the additional costs if they want to export.

In addition to difficulties faces the SMEs in Jordan (restriactive labor regulations, tax rates, and access to finance, policy instability, inaduqate insufficient capacity of inovation, inadequate educated work force insufficient infrastrcutre channels) (Global Competitiveness Report,2014) and maybe can attribute to small percentage of industrial sector 18% from the all sectors that make up the Jordanian economy.

Table No (6) : ARDL Cointegrating Long Run Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SMALL	0.363257	0.103796	3.499730	0.0128
MED	0.479010	0.184883	2.590887	0.0412
INTREST_RATE	6534.452437	4696.897990	1.391227	0.2136
CONSUMER_PRICE_INDEX	-3.754706	7.087601	-0.529757	0.6153

Diagnostic tests

Diagnostic tests are carried out in order to ensure the quality of the model used for analysis and that it is completely free from Econometrics problems. **Table** No. (7) shows the results of these tests. It is noted that the Normality of Residuals Test has a probability value of 0.57, which means that the null hypothesis cannot be rejected that states that the residuals of the model are normally distributed. As for the Serial Correlation test between the random errors, the results of the estimation showed that the probability value of the test is 0.48, indicating that there is no serial correlation between the errors. As for the heteroskedasticity test, the probability value of the test in the model was (0.49) and it is not statistically significant, and therefore it can be concluded that there is no difference in the variance of random errors

Table No. (7): Diagnostic tests

Normality Test		**Heteroskedasticity Test**		**Serial Correlation Test**	
Jarque-bera	Prob.	F-statistic	Prob.	F-statistic	Prob.
1.128	0.57	1.09	0.49	0.88	0.48

7- Conclusion and Recommendations:

There is a lot of literature on the challenges faced by small businesses and start-ups in accessing finance and suggested solutions for dealing with them. However, many of these recommendations turned out to be difficult to implement due to the lack of sufficient public funds that can be allocated to support small businesses and the low appetite of commercial banks to provide credit lines to such companies due to the level of risk associated with them compared to larger enterprises and businesses that can provide traditional collateral such as real estate and cash deposits. The results of the research also showed the positive significant impact of small finance on export in long term, and positive, significant impact of medium finance on export in the long term. We have found that the impact of financing given to medium-sized businesses on exports is greater than that of financing provided to small businesses. This may be because small businesses cannot afford to pay the extra cost if they want to export. and one of the solution that can be make When these companies interact with each other, SMEs will make changes to improve their organizational structure, management practices, and operations. These changes have prompted small companies to upgrade their technology, improve efficiency, and most importantly, become financially stable. As a result, income has become larger and more stable, making it possible for these companies to add new export. Owning a large company as a client also opens the door to easier access to credit and other business opportunities. The biggest benefit is the overflow of new knowledge and innovation. These have promoted the deepening of capital, improved the experience of human capital, and enabled them to acquire new knowledge, thereby enhancing the export.

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